

General Government
Governor's Office of Agricultural Policy

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation	1,000,000				
Total General Fund	1,000,000				
Tobacco Settlement-Phase I					
Tobacco Settlement - I	24,541,300	27,260,100	27,260,100	21,469,800	23,065,100
Continuing Appropriation	17,557,700	12,305,200	9,508,700	12,305,200	9,508,700
Total Tobacco Settlement-Phase I	42,099,000	39,565,300	36,768,800	33,775,000	32,573,800
Restricted Funds					
Balance Forward	625,700	613,100	354,600	613,100	324,400
Current Receipts	503,000	431,200	431,200	257,100	245,600
Total Restricted Funds	1,128,700	1,044,300	785,800	870,200	570,000
TOTAL SOURCE OF FUNDS	44,227,700	40,609,600	37,554,600	34,645,200	33,143,800
EXPENDITURES BY CLASS					
Personnel Cost	1,107,100	1,382,100	1,454,900	1,149,300	1,177,400
Operating Expenses	201,300	225,300	225,300	201,300	201,300
Grants, Loans or Benefits	30,001,000	29,138,900	30,048,900	23,461,500	31,765,100
TOTAL EXPENDITURES	31,309,400	30,746,300	31,729,100	24,812,100	33,143,800
EXPENDITURES BY FUND SOURCE					
General Fund	1,000,000				
Tobacco Settlement-Phase I	29,793,800	30,056,600	31,027,900	24,266,300	32,573,800
Restricted Funds	515,600	689,700	701,200	545,800	570,000
TOTAL EXPENDITURES	31,309,400	30,746,300	31,729,100	24,812,100	33,143,800

The Governor's Office of Agricultural Policy (GOAP) is the Governor's direct link to the Commonwealth's agricultural industry. The Kentucky Agricultural Development Board, the Kentucky Tobacco Settlement Trust Corporation, the Governor's Commission on Family Farms, the Kentucky Aquaculture Infrastructure Development Fund, the Kentucky Agricultural Resource Development Authority, the Governor's Tobacco Marketing and Export Advisory Council, and the Kentucky Agricultural Finance Corporation are staffed by the employees in this Office.

The Kentucky Agricultural Development Board, authorized in KRS 248.707, distributes funds received by the Commonwealth from the Tobacco Master Settlement Agreement (Phase I money). The Board invests in innovative proposals that increase net farm income and assists tobacco farmers and tobacco-impacted communities by stimulating markets, finding new ways to add value to existing products, and promoting diversification of Kentucky's agricultural economy.

The Agricultural Development Board has fifteen members, described in KRS 248.707(2). They are the Governor, Commissioner of Agriculture, Secretary of the Cabinet for Economic Development, and Director of the University of Kentucky Cooperative Extension Service, along with eleven members appointed by the Governor to staggered terms. Those appointees include representatives of the Kentucky Farm Bureau, the Kentucky Chamber of Commerce, an attorney, an agricultural lender, and seven active farmers.

Half of Kentucky's tobacco settlement receipts are allocated to the Agricultural Development Fund. That amount is further divided between a counties account, which receives 35 percent of the funds, and a state account that receives the remaining 65 percent. From the state account, the General Assembly has appropriated debt service for bonds to support farmland preservation and safe drinking water, water and sewer infrastructure projects, and funding for land conservation programs.

Thirty-five percent of funds received into the Agriculture Development Fund are allocated for projects on the county level. The specific funding level of a county is dependent upon its tobacco-production dependency in relation to other counties within the state as described in KRS 248.703(3). One hundred and eighteen of Kentucky's 120 counties receive a portion of the 35 percent county allocation. Each county has a council of local agriculture leaders who consider applications for grants from the county's share of funds and prioritizes them for the Agricultural Development Board, which has the final grant authority for each county's funds. The Board has developed several model programs in which counties may participate. Models have been developed for diversification of products, cattle genetics improvement, handling and storage facilities, fencing, forage improvement, and water resources. Funds are provided as matching grants.

In addition to Phase I, Kentucky tobacco farmers have received annual payments from the National Tobacco Grower Settlement Trust Agreement (Phase II). The Kentucky Tobacco Settlement Trust Corporation (KTSTC), also known as the Phase II Board is responsible for the creation of a distribution plan and list of eligible recipients for each year of the National Tobacco Growers Settlement Trust. The Grower's Settlement is an agreement reached between the four major cigarette manufacturers and tobacco-growing states to compensate tobacco growers and quota holders for anticipated losses in income due to the Master Settlement Agreement. Payments from the Grower's Settlement Trust Agreement were scheduled to continue through 2010. Since 1999, the KTSTC has certified over \$726 million in direct payments to Kentucky tobacco growers and quota holders. Approximately 163,000 individuals receive payments annually through the Phase II program. A total of 185,000 different individuals have received payment over the past four years. GOAP staff serves the KTSTC to carry out their duties including: management of the claim processing vendor contract, National Trustee relations, public information, publication development, and Board correspondence. Costs related to the administration of the program are reimbursed directly from the national trustee. The KADB does not have any mandated oversight or administrative management of the Phase II program.

On November 2, 2004, the tobacco companies participating in the Phase II agreement sent notice to the 14 grower states, requesting a full refund for the 2004 payments with a notice they would not make the final 2004 payment. In the 2005 Session, the General Assembly provided \$114 million, which included \$87 million in bond funds and \$27 million from Phase I statewide funds, to ensure Kentucky producers received a 2004 Phase II payment. In addition, the Burley Tobacco Growers Cooperative provided \$10 million to bring this total payment to Kentucky farmers to \$124 million.

As provided in the 2004-2006 budget, the bonds were issued and payments were made to Kentucky farmers in June 2005. On August 19, 2005, the North Carolina Supreme Court ruled that the tobacco companies were responsible for all of the 2004 Phase II payments. In October the trustee paid the disputed amount to the Kentucky Tobacco Settlement Trust Corporation, which in turn transferred the funds to the General Fund of the Commonwealth. As a result, the \$27,000,000 was returned to the Agriculture Development Fund, and the \$87 million in bonds will be devoted to other appropriated capital projects.

In addition to their work with Phase I and Phase II, the staff of GOAP assists the Governor's Commission on Family Farms and the Kentucky Agricultural Resource Development Authority (KARDA). The KARDA is created in KRS 11.170 as an organization of representatives from various commodity groups who inform and advise the Governor on issues related to the Kentucky's agricultural economy. The Commission on Family Farms was created by executive order in April 1998 to advise the Governor on issues related to farm families and rural communities. The staff of GOAP also assists with the Kentucky Agricultural Finance Corporation. The Kentucky Agricultural Finance Corporation is a *de jure* municipal corporation created in KRS 247.944 to provide access to capital for farmers and other agricultural enterprises. The Governor appoints all of the board members.

Policy

Included in the above appropriation of General Fund (Tobacco) is \$15,509,000 and \$16,419,000 respectively in each year of the biennium for the county portion of the Agriculture Development Fund.

The Governor's recommended budget provides the ability for counties that are allocated more than \$20,000 annually to devote up to four percent of the individual county allocation, not to exceed \$15,000 annually, to the county council for administrative costs.